

Payment of Vermont Sales and Use Tax by Contractors

This fact sheet provides guidance for contractors on the proper application of the Vermont Sales and Use Tax. This document is not comprehensive. Please review the referenced information and/or contact our office for guidance on specific situations.

Sales tax when improving real property

When contractors incorporate tangible personal property into buildings, structures, and landscapes, the contractor should not charge sales tax to the customer. The exception is when the person acting as a contractor is primarily a retailer or manufacturer and has made the election (see page 2). Other than this exception, the contractor should pay tax on the tangible personal property at the time of purchase. The cost of service is not subject to sales tax.

If the contractor did not pay 6% sales tax on tangible personal property, he or she must pay use tax directly to the state. Use tax is due on the same date and cycle as sales tax and is payable on Form SUT-451, Vermont Sales and Use Tax Return.

Examples of real property improvements include electrical, plumbing, heating, ventilation, and cooling systems; carpentry; roofing; plastering; foundations; landscaping; and painting. Improvements and repairs to septic systems, parking lots, and driveways are also treated as improvements of real property.

Although contractors cannot itemize the sales tax on their invoices, the invoices may include the statement: "The contractor has paid all applicable Vermont taxes on materials used for this job."

Equipment is subject to sales and use tax

When contractors purchase, rent, or lease equipment and use it in Vermont, it is always subject to Vermont Sales Tax. Tax applies even when contractors use equipment on exempt projects. If the contractor does not pay 6% sales tax at the time of purchase, the contractor must pay Vermont Use Tax.

A few examples of taxable rentals subject to tax include equipment, such as earth moving machinery, cranes, generators, or trailers for project management. These types of equipment are frequently rented or leased by contractors on a job-specific basis.

Examples of equipment subject to sales and use tax that are frequently purchased by contractors include items such as ladders, saws, drills, and nailguns. The purchase of blueprints also falls into this category and is subject to tax.

Out-of-state contractors working in Vermont

Out-of-state contractors working in Vermont are subject to the use tax in the same way as Vermont contractors. Sales tax must be paid on supplies, materials, and equipment used for the improvement of Vermont properties when purchased or rented from Vermont vendors. If 6% sales tax has not been paid on supplies and equipment brought into the state, then use tax is due.

For equipment purchased for a Vermont project and brought into the state, out-of-state contractors should base the use tax on the market value of the equipment when it is brought into the state. Contractors bringing tangible personal property into the state for fewer than six months for use in a project may base the use tax on the fair rental value of the property for the period of use within the state. 32 V.S.A. §9774(2).

Vermont contractors working out of state

Purchases of supplies and materials by Vermont contractors from Vermont vendors are subject to sales tax, even if they will be used in another state. However, there is an exemption from use tax if the supplies and materials are for use on a property in a state with no sales or use tax and are stored in Vermont for 180 days or less. For example, if a contractor purchases materials online from a vendor that does not collect Vermont tax, has them delivered to Vermont, and stores them in Vermont for one month before use on a job in New Hampshire, no use tax is due on the materials.

Disclaimer: The information provided here is intended to be an overview only. Vermont tax statutes, regulations, Vermont Department of Taxes rulings, or court decisions supersede information presented here.

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Improvements to exempt properties

There is no sales tax due on building materials and supplies used in the construction, reconstruction, alteration, remodeling, or repair of any building or structure meeting one of the following conditions:

- Owned by or held in trust for the benefit of the State of Vermont or the United States of America or their agencies and instrumentalities and used exclusively for public purposes (including public works)
- Owned by or held in trust for the benefit of an organization exempt under the provisions of Section 501(c)(3) of the United States Internal Revenue Code and used exclusively for the purpose upon which its exempt status is based
- Owned by a local development corporation as defined in 10 V.S.A. § 212(1) and used exclusively for the purposes authorized in 10 V.S.A. Chapter 12.

Note: This exemption does not apply to property that is leased but not owned by or held in trust for such organizations.

Contractors must complete Form S-3C, Certificate of Exemption, from the Department of Taxes. Please see our website for more details on exempt purchases.

The exemptions outlined above apply only to materials incorporated into and supplies consumed for the exempt project. Supplies that are consumed include items such as fuels for welding and equipment operation, and blades and bits for tools. The tools themselves are subject to sales tax when purchased even if the contractor intends to use those tools and equipment on an exempt job. Supplies such as protective clothing (hard hats and safety shoes), tarps, repair parts for construction machinery and equipment, and blueprints are not consumed on a project and are subject to sales and use tax.

For retailers and manufacturers who occasionally act as contractors

If you are *primarily* a retailer or manufacturer, you will be treated as a contractor when purchasing material and supplies for use in improving, altering,

or repairing real property. 32 V.S.A. § 9701(5). “Primarily” means more than 50% of your business. “Treated as a contractor” means that you will 1) pay sales tax to a wholesaler for materials at the time of purchase or 2) pay use tax when you install materials or supplies from your inventory.

However, if you are a retailer or manufacturer that *occasionally* acts as a contractor when installing property you sell, you are allowed *to formally elect to be treated as a retailer*. If you make this election, you would not pay sales tax to the wholesaler or use tax. Instead, you must charge and collect sales tax from your end customer.

To make this election, complete and submit Form SUT-459, Election by Manufacturer or Retailer Occasionally Acting as a Contractor. An election must be filed with the Department *at least 30 days before* you change your tax collection practices.

If you choose to make this election, it is binding for five years. After five years, you may contact the Department to change your status, or you may continue with the election. If we don’t hear from you, your election to be treated as a retailer or manufacturer will remain in place.

Know Vermont Tax Law and Regulations

Business owners are expected to know state tax laws and regulations that apply to their businesses.

For more information, please see the following:

Department Website

tax.vermont.gov

Business Center

tax.vermont.gov/business-center

Tax Statute, Regulations & Technical Bulletins

tax.vermont.gov/tax-law-and-guidance

Forms and Publications

tax.vermont.gov/forms-and-publications

Questions?

Call (802) 828-2551 or email tax.business@vermont.gov.